1997 The Churchill Corporation Annual Report

"Churchill's mission is to maximize client value in the construction process by partnering with owners to profitably deliver project-related services appropriate to fulfilling each owner's needs."

Strategic Direction

Churchill's vision is to create the most profitable, diversified construction organization in western Canada. The first two stages in the strategy to achieve this goal involved financial restructuring and an operational turnaround and these were achieved in 1997. Churchill has now embarked upon the third stage of its strategy which focuses on growth, without sacrificing quality or profitability.

Corporate Profile

The Churchill Corporation is a public company, listed on the Alberta Stock Exchange (CUQ). The Corporation has 213 registered shareholders of 9,731,074 Class A common shares.

The Corporation's head office is in Edmonton and subsidiaries have offices located in Edmonton, Calgary, Vancouver, Regina, Fort McMurray and Bonnyville. Churchill has a nine member Board of Directors, an Executive Committee, Audit Committee and Human Resources Committee.

Subsidiaries

Stuart Olson Construction Ltd.	100%
Insulation Holdings Inc.	100%
Triton Projects Limited Partnership	80%

Affiliate

Lafrentz Road Services Ltd.	41%

Report to Shareholders

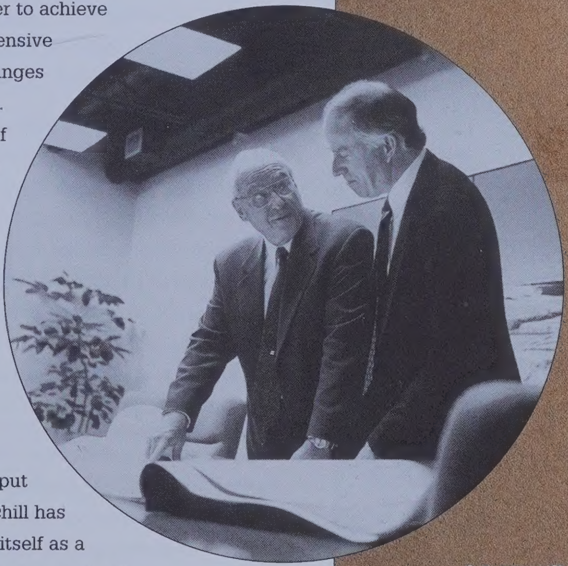
1997 was a year of great beginnings and endings for The Churchill Corporation, with improved results and increased activities occurring throughout every month in between. The year was established from the outset with positive net earnings being achieved in the traditionally weak first quarter – the first time for Churchill since 1988 – and the year concluded as the Corporation recorded its highest revenues in five years with net earnings that are the best in Churchill's history.

The Churchill Corporation has emerged from the tumultuous years of the 1990s to begin rewarding shareholder patience with increased shareholder value. Common share book value at the end of 1997 was at $0.76, an improvement of $1.05 during the year. Churchill's common shares in 1997 have become more actively traded. The average weekly trading volume in 1997 was about 60,000 shares as compared to 5,500 in 1996.

Churchill recorded revenues of $195 million for the year ended December 31, 1997, a 56% improvement over 1996 revenues of $125 million. Each of Churchill's subsidiaries delivered substantial year-over-year improvement. Consolidated net earnings for 1997 were $3.57 million, or $0.24 per common share fully diluted, compared with the previous year's net earnings of $1.43 million, or $0.08 per common share. 1996 Net Earnings included an unusual gain of $1.7 million from debt settlement.

Fourth-quarter revenues in 1997 were $46 million, an increase of 19% over the same period in 1996. Net earnings before tax for the quarter were $1.9 million, compared with $1.8 million for the same three month period in 1996 which included the unusual gain from the debt settlement.

The successful implementation of a Strategic Plan put in place in the early nineties has resulted in the revitalization of operations and recapitalization of the corporate structure. In order to achieve this success, extensive management changes have taken place. The divestiture of non-construction activities has been accomplished and the adoption of a policy to encourage value added partnering with clients has been put into effect. Churchill has now established itself as a leading construction organization in western Canada.



S. K. Hooper, Chairman and H. R. (Hank) Reid, President and C.E.O.

A new capital structure involved the divestiture of non-core assets, debt repayment, enhancement of working capital and equity restructuring. The single most significant element of this plan was achieved in 1997 with the repurchase of all preferred shares, and the cancellation of 8,865,846 Class A common shares. With the cancellation of the preferred shares and the cumulative dividend entitlements thereon totalling $13.4 million, 100% of Shareholders' Equity is now attributable to holders of common shares. The $4.7 million repurchase effectively improved the book value of common shares by $8.7 million. Churchill enjoys a substantially stronger balance sheet; common shareholders have benefited with a significantly higher common share book value and strong earnings-per-share results.

Report to Shareholders (cont'd.)

"... net earnings... the best in Churchill's history."

The Churchill Corporation is no longer burdened with excessive leverage. Our construction business is healthy. The foundation from which to launch the growth phase of Churchill's strategy is now in place and, unlike the early 1990s, the construction markets offer exceptional opportunities.

Churchill's three subsidiaries – Stuart Olson, Insulation Holdings and Triton Projects – completed 1997 by exceeding their budgets and previous year's earnings. While increased activity and improved financial performance were achieved by all three, Stuart Olson led with the greatest improvement. Accompanying sections of this Report to Shareholders provide details of our subsidiaries' results and operations during 1997.

Churchill's over-all results for 1997 reflect a healthy year-end cash position of $12.6 million, a 53% increase over year-end 1996. Cash generated from operations and from the sale of non-core assets was primarily utilized to reduce the Corporation's total bank debt by $4.1 million and to increase cash reserves by $4.4 million. Interest-bearing debt as a whole increased by $350,000 during the year due to the offsetting impact of a new $4.5 million mezzanine loan to finance the preferred share purchase.

The sale of non-core assets during the year included Churchill's ownership interest in Russell Technologies Inc., the Lewis Estates subdivision, and two commercial real estate properties in Edmonton. We ended the year with working capital of $9.4 million which is double that at the end of 1996. The current ratio improved from 1.12 to 1.25.

It should be noted that Churchill's 1997 net earnings of $3.57 million includes the positive effect of $960,000 from claims settled during the year related to prior years' operations. After taking these unusual items into consideration, however, 1997 still stands as the best year in the Corporation's history.

Construction markets and the economy in western Canada should continue to be buoyant in 1998. Falling oil prices have decreased construction activity in the heavy oil segment of the market but the outlook for construction in the remainder of the energy and petro-chemical industry remains strong. Churchill begins 1998 with a carryover of $130 million in contracts and intends to aggressively pursue the opportunities available.

Our vision is to create the most profitable construction organization in western Canada. A disciplined focus on market segments that offer growth and opportunity for value-added contracting will serve us in achieving this objective. The measurement of our success is not in total volume of work or grandeur of the projects we undertake. Churchill's measure will be its bottom line ability to deliver the best in quality and service to clients, and the best in return on investment to shareholders.

Our focus extends, as well, to laying the foundation of people and capital needed to grow, without sacrificing quality or profitability. We are identifying the critical mass of activity necessary to maximize Churchill's ability to compete and deliver the best value-added service in the western Canadian markets. We intend to build the organization to achieve this threshold within five years. Geographical expansion will follow in order to provide further growth for Churchill shareholders.

The Board of Directors has adopted a Shareholder Rights Plan designed to encourage the fair treatment of shareholders in connection with any takeover offer for the Corporation. The plan addresses the concern that the present regulatory legislation does not allow a sufficient period of time during a takeover bid for the shareholders or the Board of Directors to properly assess and consider a bid or for the Board of Directors to seek alternatives to such a bid. It also

Report to Shareholders (cont'd.)

addresses the concern that all shareholders be treated equally in any transaction involving a change of control of the Corporation. The plan was effective March 18, 1998 but is subject to regulatory approval and confirmation by the shareholders. Shareholders will be asked by ordinary resolution to confirm the plan at the Special and Annual General Meeting of the Shareholders on May 20, 1998.

Churchill is indebted to the excellence and commitment of its employees for the successful turnaround that has been achieved. We are expressing the Corporation's appreciation, while fostering employee ownership interest, by implementing an employer/employee stock purchase plan in 1998. Employee contributions up to 1% of salary will be matched by the Corporation to allow open market purchase of Churchill's shares for the employees.

As Churchill embarks on its strategy to grow and increase profitability, we recognize the efforts of our employees in bringing Churchill to the position it now enjoys. A construction business relies highly on the quality of its employees. Churchill's people are our most valued asset. We are fortunate to have them.

The Board of Directors and Management are very appreciative of the continued support of our shareholders as we work to enhance shareholder value.

H. R. (Hank) Reid
President and CEO

Stanton K. Hooper
Chairman

"Churchill begins 1998 with a carryover of $130 million..."

Stuart Olson Construction

"... commenced its largest project to date – an $85 million mixed-use development encompassing an entire city block in Burnaby."

The Stuart Olson group of companies posted a strong 1997 with more than $150 million in executed contracts, a 57% increase from 1996, as all branches exceeded budgeted revenues and earnings. Notable construction projects in Alberta included a large armed forces dormitory in Wainwright, a cold storage distribution centre in Calgary, two schools, three big box national retail stores, and a fine arts building and concert hall at the University of Calgary.

In British Columbia, Stuart Olson commenced its largest project to date – an $85 million mixed-use development encompassing an entire city block in Burnaby. The project, which started late in 1997 and is scheduled for completion in 1999, is a joint venture with a substantial U.S.-based contractor and consists of high-rise residential, hotel and office towers, several floors of retail space and underground parking. Also in B.C., Stuart Olson projects in 1997 included three new hotels, several office buildings and two high-rise residential towers.

A corporate reorganization of Stuart Olson, initiated in 1996, was completed in 1997 with the promotion of Gary Bardell, P.Eng., M.B.A. to President of the company. An upgrade of Stuart Olson's computer system is under way to improve productivity, facilitate electronic transfer and effect Year 2000 compliance.

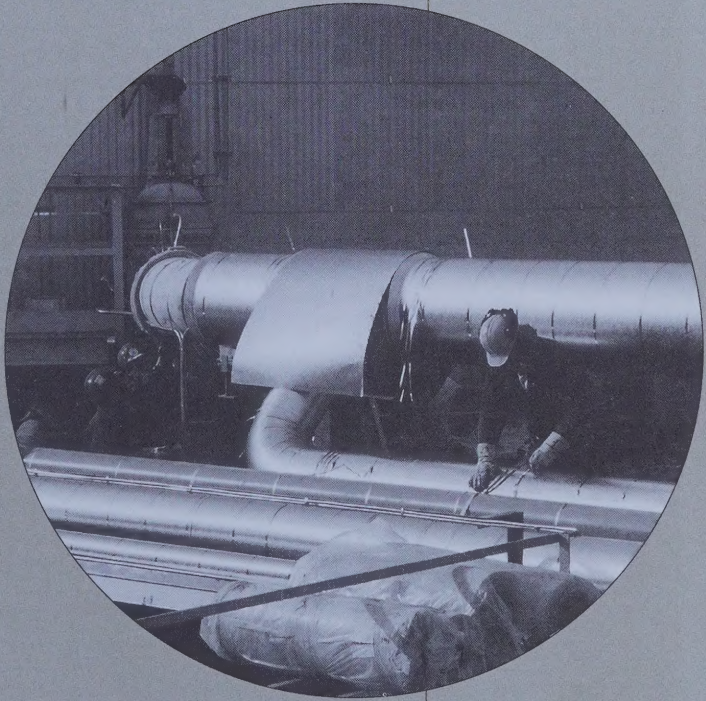
Stuart Olson employs approximately 100 full-time staff and a site complement of 80 to 200 construction workers. The company serves clients by offering project management, design-build and value engineering in addition to traditional building activities.

Insulation Holdings

Insulation Holdings, Churchill's industrial insulation and asbestos removal contractor, achieved revenues in 1997 of $29 million, an increase of 29% from 1996. These increased revenues generated record operating profits by the company as it served clients throughout western Canada from its branches in Calgary, Edmonton, Regina, Fort McMurray and Bonnyville.

Projects in industrial insulation, asbestos removal, siding, fireproofing and plant maintenance were carried out in 1997 for major Canadian firms in the chemical, pulp and paper, petroleum and energy industries. Projects undertaken in 1997 involved insulating and cladding a new smelter at Trail, B.C., asbestos removal and re-insulation in a major power plant in Alberta, insulation and cladding on one of Alberta's largest heavy oil steam injection facilities as well as a coking unit at Fort McMurray. In Saskatchewan, Insulation Holdings undertook sound attenuation work on a series of compressor stations and completed thermal insulation and asbestos abatement for a pulp and paper mill expansion. Thermal insulation and cladding was completed for an extensive addition to a fertilizer plant in Manitoba.

Insulation Holdings, in business for more than 35 years, employs approximately 40 full-time staff. Field crews vary in size from 100 to 500 tradespeople, depending on the season.



"Projects... were carried out... for major Canadian firms in the chemical, pulp and paper, petroleum and energy industries."

Triton Projects

Triton Projects, 80% owned by Churchill, achieved revenues of $19 million in 1997 as a result of increased demand for mechanical construction services in the energy and petrochemical sectors. This revenue performance is more than double that achieved by Triton Projects in 1996, contributing significantly to the company's improved earnings for 1997.

Triton Projects is a mechanical contractor to the energy, petrochemical, mining and forest product industries. During the year, Triton undertook the modernization of a sour gas plant, an addition to a compressor station, gas plant expansion work, expansion to an oil pumping station, installation of a new compressor in an existing gas plant, construction of a new heavy oil battery, and various maintenance construction work.

Based in Nisku, Alberta, the company employs 25 full-time staff and approximately 150 employees in field operations. Triton supports its management skills with state-of-the-art computer-based estimating, scheduling, planning and job costing systems. The company has been in business in western Canada for more than 40 years and enjoys a superior reputation for quality, safety, reliability and efficiency.

"... enjoys a superior reputation for quality, safety, reliability and efficiency."

Management's Discussion and Analysis

This discussion and analysis of the financial condition and operating results of the Corporation should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Annual Report.

Capital Restructuring

The most significant event during the year, for increasing common shareholder value, was the July 31st acquisition and cancellation of all the Corporation's issued preferred shares and the cancellation, by agreement, of 8,865,846 common shares. The preferred shares acquired represented the entire $9.8 million Share Capital of the Corporation and, with previously accumulated dividend entitlements of $3.6 million, had a priority claim totalling $13.4 million. Shareholders' Equity at the end of 1996 was $8.2 million leaving an effective negative book value of $5.2 million, $0.29 per share, for the common shareholders. The cost of acquiring the preferred shares was $4.7 million thereby improving the book value attributable to common shares by $8.7 million.

The share capital restructuring was financed by a $4.5 million, five year term loan bearing interest at 16% per annum. The lender was paid a commitment fee of $225,000 plus 800,000 common shares. The lender was also given an option to purchase a further 800,000 common shares at $0.40 which expires July 31, 2000. This mezzanine financing replaced equity and has a security position subordinate to other lenders. The cost, therefore, is high but prepayments may be made without penalty. It is management's intention to pay down this financing as quickly as cash flow and banking covenants allow.

Results of Construction Operations

Contract Revenue of $195 million is $70 million or 56% higher than 1996. Contract Income, as a percentage of Contract Costs is 8.7% compared to 9.2% last year.

In 1997 $15 million of construction management work was performed on a fee for service basis compared to $20 million of such work in 1996. For this type of contract, only the fees earned are included in revenue.

Construction contracts, by their nature, have an element of negotiation until completed. Occasionally issues cannot be resolved and a formal claim must be pursued. When this happens it is the Corporation's policy that all costs must be recognized as incurred and no revenue may be assumed until the claim is finally settled. This is a normal part of our business and subsequent period settlements are usually immaterial. An exception occurred in 1997 when a subsidiary settled a large claim related to a prior year's contract. This settlement contributed $860,000 to before tax earnings.

Net interest expense of $344,000 is primarily attributable to the $4.5 million mezzanine financing. That interest, for five months, includes amortization of the commitment fee.

Results of Non-Construction Operations

Non-construction operations represent the net cost or income resulting from management and disposition of the Corporation's non-core assets.

The non-core assets on the balance sheet are Properties for Sale, Agreements Receivable and Corporate Investments. In keeping with our non-core divestiture policy, asset sales during the year reduced the carrying value by $1.9 million (33%) to $3.8 million.

"Contract Revenue... 56% higher than 1996."

"Working capital has increased by $4.7 million...."

In 1996 Non-Construction Operations included two significant transactions; the Corporation's oil and gas assets were transferred as settlement of a promissory note obligation resulting in a one-time gain of $1,674,000, and a charge of $500,000 was taken as an allowance against the potential call of a non-core guarantee obligation. During 1997, the Corporation negotiated a 50% reduction of the guarantee obligation resulting in a $250,000 reversal of the prior year charge.

In keeping with the reduction of non-core assets, steps have been taken to reduce associated costs. 1997 includes administrative costs of approximately $250,000 that will not be incurred in 1998.

Income Taxes

Tax provisions totalling $1,150,000 have been charged against earnings in the year due to certain subsidiaries having fully utilized their tax shelters. The Corporation and certain of its subsidiaries continue to carry unrecognized tax loss carry forwards of approximately $5,600,000. With a strengthening earnings outlook, management is confident the value of the loss carry forwards will be realized in future years.

Balance Sheet

Total assets increased $2.3 million during the year which is the net effect of a $4.2 million increase in construction assets and a $1.9 million decrease in non-construction assets.

Working capital has increased by $4.7 million to $9.4 million and the current ratio has improved from 1.12:1 to 1.25:1. A ratio of 1.25:1 is considered reasonable for our type of business.

Cash flow from operations and disposition of non-core assets has enabled a reduction in Bank Indebtedness to $1.9 million from $4.7 million last year.

At December 31, 1997 the Corporation and its subsidiaries had aggregate bank operating lines of credit of $10.8 million (1996: $14.0 million). The group was in compliance with the terms of its credit facilities throughout the year and, at December 31, 1997, had aggregate unused lines of credit of $9.0 million (1996: $9.3 million).

The book value per common share at December 31, 1997 is $0.76 which is an improvement of $1.05 over the 1996 negative book value described above in Capital Restructuring.

Computers and The Year 2000

Stuart Olson Construction has recently installed a new IBM AS400 in its Calgary office with data communication lines to connect the Edmonton and Vancouver offices. This new hardware replaces several old computers that serviced each location.

Churchill and its subsidiaries utilize various packaged programs for which Year 2000 compliant upgrades are readily available. Stuart Olson, in conjunction with its hardware installation, has upgraded to the latest version of its software and is now Year 2000 compliant. Other software packages will be upgraded during 1998. The cost of these upgrades will not be material.

Summary

The Corporation's balance sheet shows significant improvement over the year. The burden of carrying non-core assets is largely behind us. A $130 million backlog of contracted work is being carried forward of which $110 million is expected to be completed in 1998. The near term outlook for construction activity in western Canada is excellent. Your Corporation is well poised to take advantage of the improved markets to add shareholder value the old fashioned way – by earning profits.

Management's and Auditors' Reports

Management's Report

The accompanying financial statements and all information in this Annual Report are the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect management's best judgement. Financial information contained throughout this Annual Report is consistent with the financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the preparation of financial statements.

Deloitte & Touche, an independent firm of Chartered Accountants, was appointed by a vote of shareholders at the Corporation's last annual meeting to examine and report on the consolidated financial statements of the Corporation in accordance with generally accepted auditing standards.

The Board of Directors has approved the information contained in the consolidated financial statements. The Board fulfills its responsibility in this regard mainly through its Audit Committee which has discussed the financial statements, including the notes thereto, with management and external auditors.

H R Reid

H. R. (Hank) Reid
President and CEO

T.B. Dunnigan

Terrance B. Dunnigan, C.A.
Vice President Finance

Auditors' Report

To the Shareholders of
The Churchill Corporation

We have audited the consolidated balance sheets of The Churchill Corporation as at December 31, 1997 and 1996 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

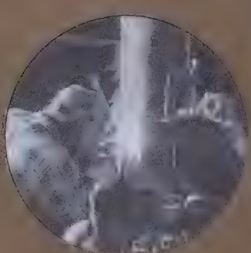
Deloitte & Touche

Chartered Accountants
Edmonton, Alberta

March 7, 1998

Consolidated Balance Sheets

December 31, 1997



($ thousands)	1997	1996
Assets		
Current Assets		
Cash and Term Deposits (Note 2)	$ 12,655	$ 8,276
Accounts Receivable	30,436	30,983
Inventories and Prepaid Expenses	1,381	1,135
Properties for Sale (Note 3)	1,693	2,810
Current Portion of Agreements Receivable (Note 4)	794	377
	46,959	43,581
Agreements Receivable and Other (Note 4)	192	533
Corporate Investments (Note 5)	1,150	2,049
Property and Equipment (Note 6)	3,065	2,920
	$ 51,366	$ 49,083
Liabilities		
Current Liabilities		
Bank Indebtedness (Note 7)	$ 1,871	$ 4,711
Accounts Payable	28,883	25,816
Contract Advances and Unearned Income	5,666	7,170
Income Taxes Payable	550	–
Current Portion of Long-Term Debt (Note 8)	626	1,217
	37,596	38,914
Long-Term Debt (Note 8)	5,146	1,365
Deferred Income Taxes (Note 9)	672	72
Minority Interest	548	527
	43,962	40,878
Shareholders' Equity		
Shareholders' Equity (Note 10)	7,404	8,205
	$ 51,366	$ 49,083

Approved by the Board:

Director

Director

Consolidated Statements of Earnings

Year Ended December 31, 1997

($ thousands, except per share amounts)	1997	1996
Construction Operations		
Contract Revenue	$ 195,491	$ 125,429
Contract Costs	179,869	114,850
Contract Income	15,622	10,579
Other Income (Note 11)	328	157
Indirect and Administrative Expenses	(10,130)	(9,695)
Depreciation Expense	(448)	(384)
Interest Expense – Net	(344)	(20)
Minority Interest	(121)	(2)
Earnings from Construction Operations	4,907	635
Non-Construction Operations		
(Expense) Income (Note 12)	(120)	933
Depreciation Expense	(63)	(141)
Earnings Before Income Taxes	4,724	1,427
Income Taxes (Note 9)		
Current	(550)	–
Deferred	(600)	–
	(1,150)	–
Net Earnings	$ 3,574	$ 1,427
Net Earnings Per Common share		
Basic	$ 0.25	$ 0.08
Fully Diluted	$ 0.24	$ 0.08

The weighted average number of common shares outstanding during the year was 14,350,892 (1996 - 17,731,920). The actual number of common shares outstanding as at December 31, 1997 is 9,731,074 (1996 - 17,731,920) (Note 10).

Consolidated Statements of Retained Earnings

Year Ended December 31, 1997

($ thousands)	1997	1996
Deficit, Beginning of Year	$ (1,624)	$ (3,051)
Net Earnings	3,574	1,427
Retained Earnings (Deficit), End of Year	$ 1,950	$ (1,624)

Consolidated Statements of Changes in Financial Position

Year Ended December 31, 1997

($ thousands)	1997	1996
Operating Activities		
Net earnings	$ 3,574	$ 1,427
Add (deduct) non-cash items		
Net equity (earnings) loss of affiliates	(99)	11
Depreciation and goodwill amortization	659	552
Gain on sale of corporate investments	(41)	(468)
Allowance for agreements receivable and other	(250)	502
Gain on settlement of debt	–	(1,674)
Deferred income taxes	600	–
	4,443	350
Change in minority interest	21	(39)
Net change in accounts receivable, inventories and prepaid expenses	301	(6,214)
Net change in accounts payable, contract advances and unearned income	1,563	14,170
Change in income taxes payable	550	–
	6,878	8,267
Investing Activities		
Change in agreements receivable	174	(133)
Proceeds on disposal of corporate investments	891	1,639
Proceeds on disposal of properties for sale	1,054	591
Proceeds on disposal of property and equipment	64	27
Additions to property and equipment	(657)	(275)
Additions to properties for sale	–	(84)
	1,526	1,765
Financing Activities		
Decrease in bank indebtedness	(2,840)	(5,309)
Issuance of long-term debt	4,500	–
Long-term debt repayment	(1,310)	(2,583)
Issuance of common shares	326	–
Acquisition of preferred shares	(4,701)	–
	(4,025)	(7,892)
Increase in Cash	4,379	2,140
Cash and Term Deposits, beginning of year	8,276	6,136
Cash and Term Deposits, end of year	$ 12,655	$ 8,276

Notes to the Consolidated Financial Statements

December 31, 1997

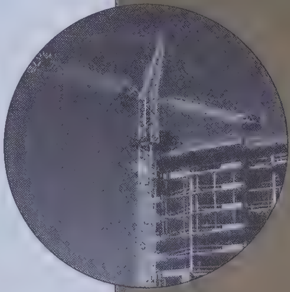
1. Significant Accounting Policies

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada, and reflect the following policies:

Consolidation

The consolidated financial statements include the accounts of the following subsidiaries and limited partnership:

Stuart Olson Construction Ltd. (100%)
Insulation Holdings Inc. (100%)
Triton Construction Inc. (80%)
Triton Projects Limited Partnership (80%)



Inventories

Inventories are recorded at the lower of cost and net realizable value.

Properties for Sale

Properties for sale are recorded at the lower of cost and net realizable value.

Property sales are recorded when the Corporation has fulfilled all material conditions and received an appropriate down payment.

Developed properties are depreciated on a 5% sinking fund basis over 40 years.

Corporate Investments

Corporate investments include equity interests in operating companies. These interests, where the Corporation has significant influence, are accounted for on the equity basis.

Property and Equipment

Property and equipment are recorded at cost and are depreciated using both the diminishing-balance and straight-line methods at the rates indicated in Note 6.

Contract Income

Revenue from construction contracts is recognized on the percentage of completion basis. Percentage of completion is determined by relating either the actual cost of work or the actual hours performed to date to the current estimated total cost or estimated total hours for each contract. Any projected loss is recognized immediately.

2. Cash and Term Deposits

($ thousands)

Cash and term deposits includes $6,595 (1996 - $4,789) the use of which is restricted to the payment of direct costs related to specific construction projects.

Notes to the Consolidated Financial Statements

December 31, 1997

3. Properties for Sale

($ thousands)

	1997	1996
Developed properties	$ 1,902	$ 3,924
Undeveloped land	1,638	2,197
	3,540	6,121
Less cumulative valuation adjustments	1,847	3,311
	$ 1,693	$ 2,810

Developed properties are net of accumulated depreciation of $363 (1996 - $417). Depreciation expensed in the year was $63 (1996 - $69).

4. Agreements Receivable and Other

($ thousands)

	1997	1996
Mortgages and notes receivable		
Interest at 9% to 9.27%	$ 264	$ 266
Interest at 6%	–	144
Interest at Prime + 1% to Prime + 1.5%	–	502
Non-interest bearing	9	10
Due on property sale – received January 28, 1998	722	–
Agreement receivable	–	4,688
Term deposit	–	500
Allowance for doubtful accounts	(9)	(5,200)
	986	910
Less current portion	794	377
	$ 192	$ 533

The $4,688 agreement receivable was repayable from future cash flow of the debtor with the first payment expected in 2007. The receivable bore interest at Prime plus 1%, however, due to the uncertainty of collection, the Corporation did not recognize this income for 1997 and 1996. The $500 term deposit was pledged as security for other obligations of the same debtor. In conjunction with an ownership change of the debtor, the agreement receivable was extinguished and the security for the debtor's obligations was settled for $250 resulting in a recovery of allowance for doubtful accounts of $250.

5. Corporate Investments

($ thousands)

	1997	1996
Equity investments		
Preferred shares	$ 138	$ 648
Net equity	1,012	1,401
	$ 1,150	$ 2,049

Unamortized goodwill included in equity investments is nil (1996 - $279).

6. Property and Equipment

($ thousands)

	1997			1996	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value	Depreciation Rates
Land	$ 578	$ –	$ 578	$ 578	
Buildings and improvements	2,031	1,023	1,008	1,073	4% - 25%
Equipment and furnishings	6,433	4,954	1,479	1,269	6% - 33⅓%
	$ 9,042	$ 5,977	$ 3,065	$ 2,920	

Depreciation expensed in the year was $448 (1996 - $384).

7. Bank Indebtedness

($ thousands)

Bank indebtedness is payable on demand, bears interest at Prime + 1.5% and is secured by floating charge debentures, general assignments of book debts and pledging of specific assets.

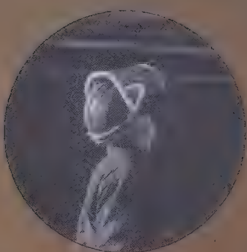
8. Long-Term Debt

($ thousands)

	1997	1996
Demand bank loan	$ 1,366	$ 2,582
Secured loan	4,406	–
	5,772	2,582
Less current portion	626	1,217
	$ 5,146	$ 1,365

Notes to the Consolidated Financial Statements

December 31, 1997



8. Long-Term Debt (cont'd.)

Demand bank loan bears interest at Prime + 1.25%, with repayments to May, 2001, is secured by a floating charge debenture, an assignment of book debts, and pledging of specific assets.

Secured loan bears interest at 16%, is due August, 2002 and is secured by a convertible debenture and general security agreement covering all assets of the Corporation second to the prior security for the demand bank loan and the bank indebtedness. The loan contains certain covenants which, if the Corporation should remain in default thereof after a sixty day notice period, permits the lender to convert the remaining indebtedness into common shares of the Corporation at the then market price per common share.

Interest cost on long-term debt during the year was $405 (1996 - $264).

Estimated principal payments in each of the next five years are as follows:

1998	$ 626
1999	626
2000	626
2001	390
2002	3,504

9. Income Taxes

($ thousands)

The consolidated group's effective tax rate approximates 45%. However, due to the utilization of $2,500 of previously unrecognized tax losses carried forward and losses in subsidiaries used to reduce deferred income taxes payable, the provision for income taxes does not reflect the effective rate.

Deferred income taxes result primarily from a subsidiary's deduction for income tax purposes of accounts and holdbacks receivable not due until the following year.

The consolidated group has accumulated non-capital losses for income tax purposes of $9,400 which may be carried forward and used to reduce taxable income in future years. If not utilized, these losses will expire as follows:

1999	$ 1,700
2000	900
2001	500
2002	2,600
2003	700
2004	3,000

These financial statements have recognized $3,800 of the above tax losses carried forward through the reduction of deferred income tax liability.

The consolidated group also has accumulated net-capital losses for income tax purposes of $6,200 which may be carried forward indefinitely to reduce taxable capital gains in future years.

10. Shareholders' Equity

($ thousands, except per share amounts)	1997	1996
Share capital	$ 326	$ 9,829
Contributed surplus	5,128	–
Retained earnings (deficit)	1,950	(1,624)
	$ 7,404	$ 8,205

Share Capital

Authorized

10,000,000	First preferred shares issuable in series with rights set by the directors
10,000,000	Second preferred shares issuable in series with rights set by the directors
110,000,000	Class A common shares

Issued	1997		1996	
	Shares	Share Capital	Shares	Share Capital
Series A first preferred				
Issued, beginning of year	4,829,069	$ 4,829	4,829,069	$ 4,829
Acquired during year	(4,829,069)	(4,829)	–	–
Issued, end of year	–	–	4,829,069	4,829
Series A second preferred				
Issued, beginning of year	1,923,077	5,000	1,923,077	5,000
Acquired during year	(1,923,077)	(5,000)	–	–
Issued, end of year	–	–	1,923,077	5,000
Class A common				
Issued, beginning of year	17,731,920	–	17,731,920	–
Shares cancelled by agreement	(8,865,846)	–	–	–
Issued from treasury	865,000	326	–	–
Issued, end of year	9,731,074	326	17,731,920	–
Total		$ 326		$ 9,829

Preferred Shares

On July 31, 1997, the Corporation acquired and cancelled all of its issued Series A first and second preferred shares for $3,139 and $1,003 respectively. Accumulated dividend entitlements of $3,618 were eliminated by these acquisitions.

The preferred share acquisitions were financed by the secured loan described in Note 8.

Notes to the Consolidated Financial Statements

December 31, 1997

10. Shareholders' Equity (cont'd.)

Contributed Surplus

Contributed surplus of $5,128 arises from the acquisition of the Series A first and second preferred shares, with an issue price of $9,829, for $4,142 plus associated acquisition costs of $559.

Common Shares

On July 31, 1997, in conjunction with the acquisition of all its issued preferred shares, the Corporation arranged for the return and cancellation of 8,865,846 Class A common shares.

During the year, 65,000 Class A common shares were issued at $0.10 per share pursuant to the Corporation's stock option plan. The Corporation also issued 800,000 Class A common shares at $0.40 per share as part of the commitment fee for the secured loan.

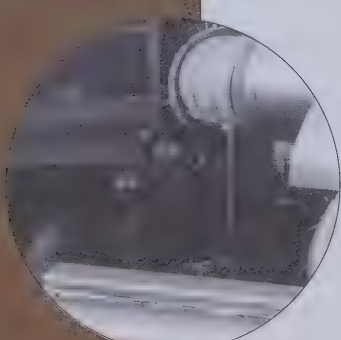
Options And Conversion Rights

The Corporation has granted its senior employees and directors options to purchase up to 455,000 (1996 - 500,000) Class A common shares at $0.10 which expire July 15, 1999, 300,000 (1996 - 330,000) Class A common shares at $0.10 which expire May 17, 2000 and 225,000 (1996 - nil) Class A common shares at $0.48 which expire August 13, 2002. During the year, options to purchase 10,000 Class A shares at $0.10 per share were cancelled.

To effect the acquisition of its preferred shares, the Corporation granted the previous holder of the Series A second preferred shares and the secured loan lender options to purchase up to 200,000 and 800,000 Class A common shares respectively at $.40 per share. These options expire July 31, 2000.

11. Other Income – Construction

($ thousands)	1997	1996
Interest income	$ 244	$ 60
Sundry	84	97
	$ 328	$ 157



12. (Expense) Income – Non-Construction

($ thousands)

	1997	1996
Corporate Investments		
Equity earnings (loss)	$ 99	$ (11)
Goodwill amortization	(148)	(27)
Management fees	63	50
Gain on disposal	41	468
Property rentals – net	201	103
Interest income	69	96
Interest expense	(348)	(589)
Oil and gas income – before depletion of $72	–	171
Other	27	30
Indirect and administrative expenses	(374)	(530)
Allowance for agreements receivable and other	250	(502)
Gain on settlement of debt	–	1,674
	$ (120)	$ 933

In 1996, a promissory note payable was settled through an asset exchange whereby the Corporation transferred its oil and gas assets to the noteholder resulting in a gain on settlement of debt of $1,674.

13. Contingencies

(a) Subsidiaries of the Corporation are contingently liable for normal contractor obligations relating to performance and completion of construction contracts and for obligations of associates in unincorporated joint ventures.

(b) The Corporation and its subsidiaries are defendants in lawsuits involving various amounts. Management is of the opinion that the results of these actions should not have any material effect on the financial position of the Corporation. Any awards or settlements will be reflected in the statement of earnings as the matters are resolved.

14. Commitments

($ thousands)

The Corporation and its subsidiaries lease certain equipment, vehicles and office premises. Under existing terms of the leases, future minimum lease payments over the next five years are:

1998	$ 769
1999	724
2000	559
2001	158
2002	122

Notes to the Consolidated Financial Statements

December 31, 1997

15. Segmented Information

The operations of the Corporation and its subsidiaries are primarily construction. As there are no other significant industry segments, segmented information is not provided.

16. Financial Instruments

Credit Risk

The Corporation is exposed to credit risk through accounts receivable. This risk is minimized by the number of customers in diverse industries and geographic centres. The Corporation performs an assessment of its potential customers as part of its construction bid process including an evaluation of their financial condition. The Corporation maintains provisions for potential credit losses and any such losses to date have been within management's expectations.

Fair Value of Financial Instruments

The fair value of the Corporation's financial assets and liabilities approximates carrying value.

17. Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

Corporate Directory

Board of Directors

Peter F. Adams
Robert G. Brawn
Stanton K. Hooper
Harry A. King
Bud W. Kushnir
William R. McKenzie
H. R. (Hank) Reid
Winston D. Stothert
Brian W. L. Tod, Q.C.

Officers

S. K. Hooper
Chairman

H. R. (Hank) Reid
President and Chief Executive Officer

T. B. Dunnigan, C.A.
Vice President Finance

Executive Offices

12836 - 146 Street
Edmonton, Alberta T5L 2H7
Telephone: (403) 454-3667
Telecopier: (403) 452-8741

Special and Annual General Meeting

The Special and Annual General Meeting
of Shareholders will be held
2:00 p.m., May 20, 1998
The Westin Hotel
10135 - 100 Street
Edmonton, Alberta

Auditors

Deloitte & Touche

Legal Counsel

Cook Duke Cox
Ogilvie & Company

Bankers

Alberta Treasury Branches
Bank of Nova Scotia

Surety

Axa Pacific Insurance Co.

Transfer Agent

CIBC Mellon Trust Company
600 The Dome Tower
333 - 7th Avenue S.W.
Calgary, Alberta T2P 2Z1

Exchange Listing

Alberta Stock Exchange
Trading Symbol "CUQ"

The Churchill Corporation
12836 - 146 Street
Edmonton, Alberta T5L 2H7
Telephone: (403) 454-3667
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